Alberta

2012-13 **Second Quarter**
Fiscal Update and Economic Statement

November 2012

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ACTUAL RESULTS

For the first six months of 2012-13

Method of Consolidation

The *2012-13 Second Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2012*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, the equity being computed in accordance with International Financial Reporting Standards applicable to those entities.

The accounts of the Alberta Innovates corporations and the Crown-controlled SUCH sector organizations such as school boards, universities, colleges, technical institutes, and Alberta Health Services that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are consolidated on a line-by-line basis in the consolidated financial statements forming part of the Government of Alberta Annual Report.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense excludes the change in the unfunded pension liabilities, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Compliance with Legislation

The *Government Accountability Act* requires reporting on the accuracy of the consolidated fiscal plan for a fiscal year, with respect to the first six months of the fiscal year, on or before November 30. The Act gives the Minister of Finance discretion over the form of the report.

The *2012-13 Second Quarter Fiscal Update and Economic Statement* provides comparisons between the six month estimates and actual results for various categories of revenue and expense, capital investment, the surplus / (deficit) and financing (borrowing) requirements, as well as an estimate for the year-end balance of the Sustainability Fund, which indicates the net financial position. Also provided is an updated outlook on the Alberta and global economies, including various economic and energy assumptions. This report, as presented, fulfils the requirements of the *Government Accountability Act*.

Under the *Fiscal Responsibility Act*, operating expense increases, excluding those for dedicated revenue-operating expense, are limited to 1% of total budgeted ministry operating expense. In addition, actual expense for a fiscal year shall not exceed revenue plus any amounts allocated from the Sustainability Fund.

The results for the first six months of 2012-13 are in compliance with the requirements of the *Fiscal Responsibility Act*.

2012-13 SECOND QUARTER FISCAL UPDATE

Highlights

Actual results for first six months

The deficit for the first six months of 2012-13 was $1,330 million, $553 million higher than expected, primarily due to lower resource revenue and increases for unanticipated disaster / emergency assistance. In-year savings are now expected to be $500 million, up from the budget estimate of $360 million.

Revenue for the first six months was $18,932 million, $260 million lower than expected.

- Resource revenue was $1,414 million lower, mainly due to the negative impact of global economic uncertainty on conventional oil and natural gas prices, an increased discount for Alberta bitumen prices relative to conventional oil prices arising from pipeline and market access issues, a higher exchange rate and lower land lease sales revenue.
- This is partly offset by higher corporate income tax cash payments, improved realized investment income and associated management fees, increased revenue from gaming and liquor sales, and higher demand for motor vehicle licences, agriculture insurance and other volume-driven fees.

Expense for the first six months was $20,261 million, an increase of $293 million from the six month estimate, due mainly to provision of in-year disaster / emergency assistance.

- Disaster / emergency assistance totalled $487 million, primarily for forest-fire fighting and agriculture hail indemnity and crop insurance payments related to severe weather.
- Partly offsetting this was a $232 million reduction in capital grant, amortization and debt servicing expense, and a net $55 million increase in operating expense. The operating expense changes included:
  - Increases of $175 million, primarily reflecting higher patient volumes impacting physician fee-for-service payments, federal labour market funding re-profiled from 2011-12, estimated re-imbursement of incurred industry costs to implement the Lower Athabasca Regional Plan, and some timing changes.
  - Decreases of $120 million, reflecting changes made to student assistance programs, lower-than-expected highway maintenance activity, lower-than-reported claims for 2011 AgriStability assistance and some timing changes.

Capital plan support during the first six months of 2012-13 was $2,287 million. This was $250 million lower than estimated due to re-profiling of projects and cash flows.

The **Sustainability Fund** balance on September 30 was $4,997 million, and as previously outlined in the *2012-13 First Quarter Fiscal Update and Economic Statement*, the year- end balance on March 31, 2013 is expected to range from $3 to $3.7 billion.

The 2012-13 deficit forecast continues to be a range of between $2.3 to $3 billion as previously reported in the *2012-13 First Quarter Fiscal Update and Economic Statement*. This estimate reflects the actual results for the first six months of a $1.3 billion deficit.

CONSOLIDATED FISCAL SUMMARY [a]

for the six months ended September 30, 2012

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Revenue	40,263	19,191	**18,932**	(260)	28,868
Expense [b]					
Program expense					
Operating expense	36,526	17,520	**17,575**	55	26,922
Capital grants and other support	3,526	1,749	**1,559**	(190)	2,370
Disaster / emergency assistance	44	17	**487**	470	26
Capital amortization	882	417	**390**	(27)	606
In-year savings	(360)	-	**-**	-	-
Debt servicing costs	531	265	**250**	(15)	400
Total Expense	41,149	19,968	**20,261**	293	30,324
Surplus / (Deficit)	(886)	(777)	**(1,330)**	(553)	(1,456)

[a] For fiscal policy purposes under the *Fiscal Responsibility Act*. Does not include revenue or expense of Crown-controlled SUCH sector organizations or Alberta Innovates corporations, or changes in pension liabilities.

REVENUE

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Income Taxes					
Personal income tax	9,314	4,514	**4,591**	77	6,793
Corporate income tax	4,471	1,474	**1,994**	520	2,445
	13,785	5,988	**6,585**	597	9,238
Other Taxes					
Education property tax	1,762	875	**875**	-	1,313
Tobacco tax	925	462	**478**	16	694
Fuel tax	850	425	**420**	(5)	638
Insurance taxes	344	172	**158**	(15)	258
Freehold mineral rights tax	152	75	**67**	(8)	113
Tourism levy	73	37	**42**	5	55
	4,106	2,046	**2,040**	(7)	3,071
Non-Renewable Resource Revenue					
Bitumen royalty	5,653	2,607	**2,238**	(369)	3,909
Crude oil royalty	2,100	1,076	**937**	(139)	1,601
Natural gas and by-products royalty	1,222	637	**288**	(349)	936
Bonuses and sales of Crown leases	2,037	1,122	**579**	(543)	1,583
Rentals and fees	151	76	**86**	10	113
Coal royalty	35	16	**(8)**	(24)	25
	11,198	5,534	**4,120**	(1,414)	8,167
Transfers from Government of Canada					
Canada Health Transfer	2,358	1,142	**1,144**	2	1,750
Canada Social Transfer	1,310	652	**652**	-	980
Agriculture support programs	322	187	**181**	(6)	307
Labour market agreements	173	87	**99**	12	171
Infrastructure support	333	117	**119**	2	209
Other	419	164	**151**	(13)	282
	4,915	2,349	**2,346**	(3)	3,699
Investment Income					
Alberta Heritage Savings Trust Fund	986	493	**653**	160	740
Endowment Funds	176	88	**115**	27	132
Alberta Capital Finance Authority	254	127	**167**	40	191
Sustainability Fund	165	83	**108**	25	124
Agriculture Financial Services Corporation	130	65	**55**	(10)	97
Debt Retirement Account	15	7	**10**	3	11
Other	68	36	**59**	23	47
	1,794	899	**1,167**	268	1,342
Net Income from Commercial Operations					
AGLC - Gaming/lottery	1,336	668	**753**	85	1,002
AGLC - Liquor	701	351	**382**	31	526
Alberta Treasury Branches	214	107	**113**	6	161
Other	28	14	**14**	-	21
	2,279	1,140	**1,262**	122	1,710
Premiums, Fees and Licences					
Motor vehicle licences	429	198	**232**	34	297
Crop, hail and livestock insurance premiums	273	270	**308**	38	272
Energy industry levies	162	140	**138**	(2)	150
Land titles	68	34	**45**	11	51
Land and grazing	67	33	**32**	(1)	50
Supplementary health benefits premiums	58	27	**27**	-	42
Other	334	117	**135**	18	172
	1,391	819	**917**	98	1,034
Other					
AIMCo investment management charges	138	69	**112**	43	104
Fines and penalties	120	60	**69**	9	90
Refunds of expense	120	62	**74**	12	92
Climate change and emissions management	70	35	**28**	(7)	53
Miscellaneous	347	190	**212**	22	268
	795	416	**495**	79	607
Total Revenue	40,263	19,191	**18,932**	(260)	28,868

OPERATING EXPENSE BY MINISTRY [a]

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Investing in Families and Communities					
Culture	176	69	**70**	1	100
Health	16,499	7,711	**7,829**	118	12,110
Human Services	4,271	2,043	**2,061**	18	3,131
Justice and Solicitor General	1,270	648	**646**	(2)	927
Municipal Affairs	405	246	**257**	11	325
Tourism, Parks and Recreation	163	82	**77**	(5)	122
Securing Alberta's Economic Future					
Education	6,179	2,955	**2,947**	(8)	4,509
Enterprise and Advanced Education	2,930	1,445	**1,397**	(48)	2,153
Infrastructure	505	246	**247**	1	365
Service Alberta	266	128	**115**	(13)	193
Transportation	475	246	**226**	(20)	365
Treasury Board and Finance	1,211	606	**611**	5	948
Advancing World-leading Resource Stewardship					
Aboriginal Relations	154	73	**72**	(1)	106
Agriculture and Rural Development	945	534	**525**	(9)	807
Energy	383	163	**184**	21	250
Environment and Sustainable Resource Development	472	219	**212**	(7)	350
International and Intergovernmental Relations	36	13	**13**	-	21
Other					
Executive Council	54	27	**22**	(5)	41
Legislative Assembly	132	66	**64**	(2)	99
Total Operating Expense	36,526	17,520	**17,575**	55	26,922

[a] Budget numbers have been restated to reflect the re-organization of government departments established by Orders in Council under the *Government Organization Act*, on May 8, May 24 and July 11, 2012.

DISASTER / EMERGENCY ASSISTANCE

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Agriculture and Rural Development					
Slave Lake Wildfire Recovery	2	1	**2**	1	2
Insurance claims due to severe weather	-	-	**290**	290	-
Municipal Affairs					
Slave Lake Wildfire Recovery	42	16	**7**	(9)	24
Municipal flood assistance	-	-	**-**	-	-
Environment and Sustainable Resource Development					
Forest fire-fighting	-	-	**186**	186	-
Mountain pine beetle infestations	-	-	**2**	2	-
Total Disaster / Emergency Assistance	44	17	**487**	470	26

CAPITAL GRANTS AND OTHER SUPPORT [a]

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Investing in Families and Communities					
Culture	53	19	**7**	(12)	28
Health	83	8	**3**	(5)	23
Municipal Affairs	894	870	**852**	(18)	882
Tourism, Parks and Recreation	1	1	**-**	(1)	1
Securing Alberta's Economic Future					
Education	362	196	**167**	(29)	288
Enterprise and Advanced Education	76	5	**5**	-	70
Infrastructure	721	288	**177**	(111)	470
Transportation	958	239	**283**	44	395
Treasury Board and Finance	102	51	**-**	(51)	76
Advancing World-leading Resource Stewardship					
Agriculture and Rural Development	39	32	**25**	(7)	35
Energy	138	40	**40**	-	40
Environment and Sustainable Resource Development	99	-	**-**	-	62
Total Capital Grants and Other Support	3,526	1,749	**1,559**	(190)	2,370

[a] Included in program expense. Includes support for project planning, grants-in-kind for health facilities and accommodation and facility preservation expense. Ministries not listed above have no capital grants or other support or the amount rounds to less than $1 million.

CAPITAL INVESTMENT / INVENTORY ACQUISITION [a]

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Investing in Families and Communities					
Culture	3	2	**-**	(2)	2
Health	77	27	**21**	(6)	53
Human Services	11	5	**6**	1	8
Justice and Solicitor General	109	51	**50**	(1)	79
Municipal Affairs	64	28	**2**	(26)	46
Tourism, Parks and Recreation	14	6	**5**	(1)	10
Securing Alberta's Economic Future					
Education	4	2	**2**	-	3
Enterprise and Advanced Education	5	2	**2**	-	4
Infrastructure	398	110	**100**	(10)	255
Service Alberta	53	6	**6**	-	17
Transportation	1,384	512	**519**	7	875
Treasury Board and Finance	33	17	**3**	(14)	25
Advancing World-leading Resource Stewardship					
Agriculture and Rural Development	11	5	**3**	(2)	8
Energy	17	7	**3**	(4)	11
Environment and Sustainable Resource Development	32	7	**6**	(1)	21
Other					
Legislative Assembly	3	1	**-**	(1)	2
Total Capital Investment / Inventory Purchases	2,218	788	**728**	(60)	1,419

[a] Not included in program expense. Ministries not listed above have no capital investment or inventory acquisition or the amount rounds to less that $1 million.

CAPITAL AMORTIZATION / INVENTORY CONSUMPTION [a]

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Investing in Families and Communities					
Culture	4	2	**1**	(1)	2
Health	60	29	**26**	(3)	48
Human Services	9	4	**4**	-	5
Justice and Solicitor General	23	12	**4**	(8)	17
Municipal Affairs	30	14	**14**	-	22
Tourism, Parks and Recreation	18	9	**8**	(1)	14
Securing Alberta's Economic Future					
Education	1	1	**2**	1	1
Enterprise and Advanced Education	6	3	**3**	-	4
Infrastructure	137	80	**71**	(9)	93
Service Alberta	52	22	**22**	-	32
Transportation	452	199	**201**	2	302
Treasury Board and Finance	13	6	**4**	(2)	10
Advancing World-leading Resource Stewardship					
Agriculture and Rural Development	16	7	**7**	-	11
Energy	21	10	**9**	(1)	16
Environment and Sustainable Resource Development	39	19	**14**	(5)	28
Other					
Legislative Assembly	1	-	-	-	1
Total Capital Amortization / Inventory Consumption	882	417	**390**	(27)	606

[a] Included in program expense. Ministries not listed above have no capital amortization or inventory consumption or the amount rounds to less than $1 million.

2012-13 FINANCING REQUIREMENTS

(millions of dollars)

	2012-13 Budget	6 Month Estimate	6 Month Actual	Change from Estimate	9 Month Estimate
Financing Requirements / Completed to Date					
Direct borrowing for capital purposes[a]	-	-	-	-	-
Term debt borrowing for provincial corporations[b]:					
Agriculture Financial Services Corporation	353	100	**100**	-	225
Alberta Capital Finance Authority	2,585	2,000	**2,637**	637	2,585
Alberta Treasury Branches	550	-	**500**	500	550
Total Financing Requirements / Completed to Date	3,488	2,100	**3,237**	1,137	3,360

[a] Does not include the estimated $1.1 billion in borrowing for Highway 63 twinning announced after September 30, 2012.

[b] Does not include $625 million of borrowing since September 30, 2012. It is estimated that an additional $1.1 billion will be borrowed for provincial corporations during the remainder of the fiscal year.

ECONOMIC OUTLOOK

Alberta economy on track for strong 2012

In a period of heightened global uncertainty, the Alberta economy has shown remarkable strength this year. Alberta consumers are also playing a role, increasing spending on the back of nation-leading job gains and income levels. Job opportunities have attracted a wave of new residents, which has helped reinvigorate the housing sector. Business investment is also key driver, buoyed by strength in oil sands activity and growth in non-mining spending.

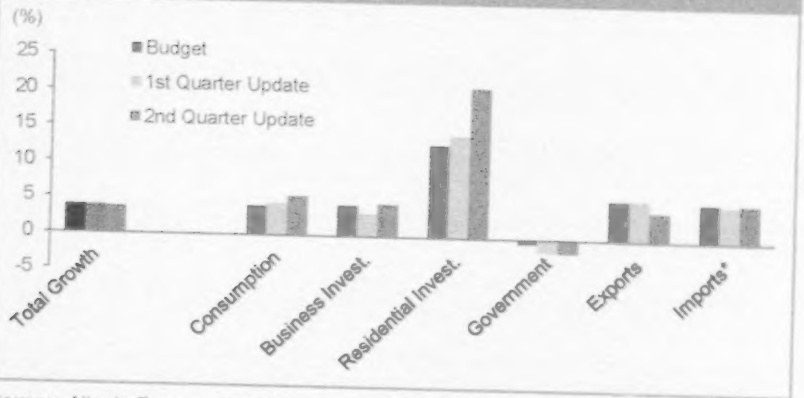
Overall, real GDP is forecast to expand by 3.7% this year, roughly in line with the *Budget 2012* and first quarter estimate of 3.8%. While this represents a moderation from the robust pace of over 5% estimated for 2011, it is still **nearly double the growth forecast for Canada and the US.**

The Alberta economy has recently shifted into a period of more moderate growth that is likely to extend into 2013. Building on last year's momentum, Alberta started 2012 with very strong year-over-year growth in many business indicators, including exports, rigs drilling and manufacturing shipments. As expected, growth in these indicators has since eased. On the household side, year-over-year job gains have moderated, while housing starts and retail sales have maintained strong growth throughout the year.

Compared with first quarter, the forecast of various growth components has changed somewhat. More growth is now forecast from consumer spending and housing, while less growth is expected to come from exports (see Figure 1). In addition, the outlook for nominal GDP and corporate profits has been revised slightly lower due to a downward adjustment to energy prices.

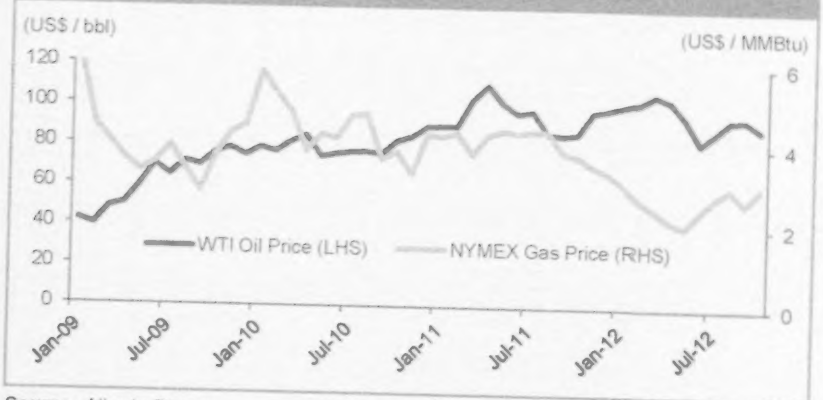
Risks to the outlook remain more elevated than normal, reflecting lingering problems in Europe and the looming "fiscal cliff" in the US.

FIGURE 1. Alberta Real GDP Growth By Component, 2012 Forecast



Source: Alberta Treasury Board and Finance *Imports subtract from GDP Growth

FIGURE 2. Energy Prices



Source: Alberta Energy

Alberta Business Sector

Energy price outlook softens

After rebounding from a mid-year slump, oil prices have failed to register meaningful gains (Figure 2). Weak global demand and rising North American supplies have kept WTI prices in the US$85-$95 range since July, despite a series of supply disruptions in the Middle East, most notably sanctions on Iranian oil. WTI is now forecast to average US$92.50/bbl in 2012-13, down $0.25 from first quarter and $6.75 lower than at budget.

Reflecting a glut of North American supply, natural gas prices are forecast to remain depressed at $2.07/GJ in 2012-13. This is largely unchanged from first quarter, but $0.93/GJ lower than budget.

ECONOMIC OUTLOOK

Business activity moderates after very strong first half

Alberta businesses started 2012 with impressive growth across a number of indicators. **In the first five months, exporters saw their international shipments grow 11% over the same period last year.** Drilling activity continued to rise above 2011's elevated levels earlier in the year.

In more recent months, growth in these indicators has started to taper off. A pullback in energy prices since May has weighed on Alberta's export and manufacturing shipment performance. Temporary supply disruptions at oil sands projects have also played a role. On average for the year, real exports are expected to post a strong gain in 2012, but slightly less than expected at first quarter.

Rigs drilling, an indictor of conventional oil and gas activity, has fallen closer to its five year average since May mainly due to weakness in natural gas (Figure 3). However, non-mining and oil sands investment remains on track to expand this year. **Overall, real business investment is expected to increase by over 5% in 2012.** Moving forward, some oil sands producers have recently outlined a more cautious approach to investment spending in the wake of lower oil prices and heightened uncertainty.

In Alberta's agriculture industry, crop producers have generally benefited from favourable growing conditions and rising prices, though some pockets of the province have faced severe weather. On the livestock side, farmers have encountered some challenges (e.g., such as higher feed costs and losses in meat processing capacity).

Corporate profits forecast holds fairly steady

The forecast for corporate profits is largely unchanged from first quarter, but down markedly from budget. The downward revision since budget reflects a weaker forecast for WTI and bitumen blend prices, as well as a sharp downgrade to the natural gas price forecast. Overall, corporate profits are now expected to increase by only 2.3% in 2012, down slightly from 2.6% at first quarter.

Alberta Household Sector

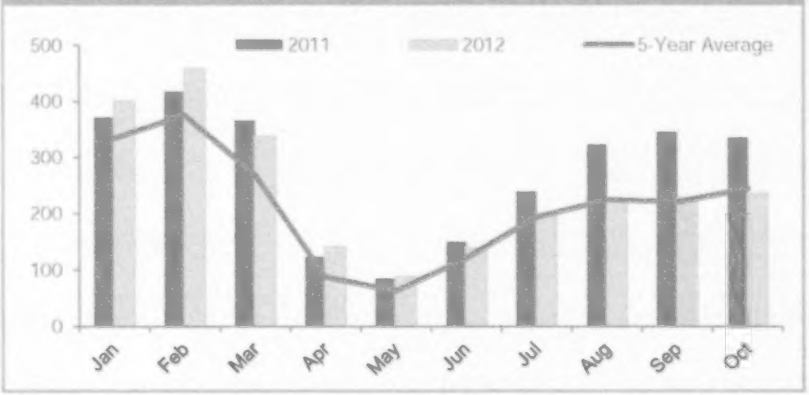
Consumers drive growth

Alberta consumers are playing a key role in the province's current expansion. Propelled by job and wage gains as well as strong population growth, Albertans have sharply increased their spending on goods and services this year.

Alberta retail sales are up by 9% in the first eight months of the year over the same time last year, nearly triple the national increase. Though spending has risen across all retail categories, auto purchases have posted especially large gains.

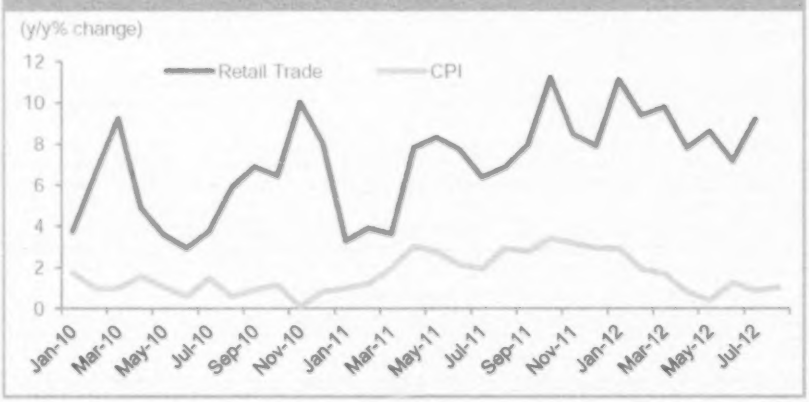
The jump in spending coincides with a period of low inflation in Alberta. Consumer prices have risen by an average of only 1.4% per month in the first nine months of the year, brought down by lower energy prices and weak gains in housing costs. As a result, the forecast for consumer price inflation has been revised to 1.5%, down from 1.9% at first quarter.

FIGURE 3. Alberta Rigs Drilling



Source: Canadian Association of Oilwell Drilling Contractors

FIGURE 4. Retail Trade and the Consumer Price Index (CPI)



Source: Statistics Canada

ECONOMIC OUTLOOK

Overall, a large portion of Alberta's economic growth will be consumer driven this year, reflecting the combination of high spending and low inflation. The forecast for real consumer spending growth in 2012 has been upgraded since first quarter by about one percentage point to 5.4%.

Consumers spurred by nation-leading job gains

An engine of national employment growth, Alberta has created more jobs than any other province this year. **Year-to-date, Alberta has gained 2.8%, or 58,600 jobs, far outpacing the 0.8% gain in the rest of Canada.** The budget and first quarter forecast for employment growth of 2.7% has remained unchanged.

Job growth and a leveling off of the labour force have pushed the **unemployment rate down to 4.5% as of October.** Alberta's unemployment rate, which is currently lowest in the country, is expected to average 4.7% in 2012, down from the 4.9% forecast at first quarter.

Earnings growth outpace inflation

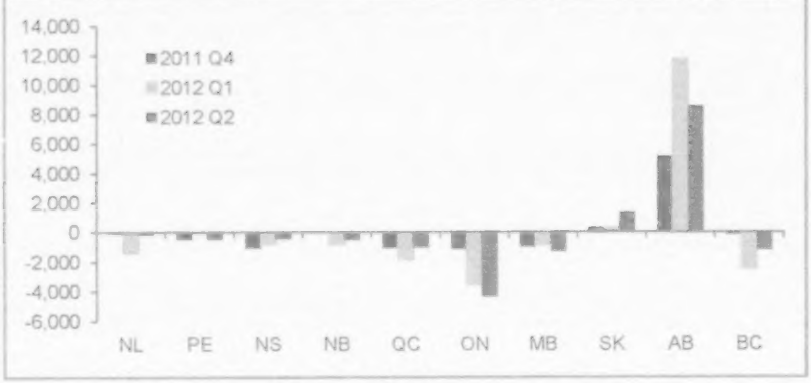
Alberta's weekly earnings remain the highest in Canada, sitting almost 20% above the national average. In the first eight months of this year, average weekly earnings have grown by 3.1%. This represents a moderation from last year's pace, but is more than double the rate of consumer price inflation. Another measure of wage pressures, growth in average hourly wages, has picked up in recent months.

The forecast for total personal income growth has been revised to 6.7%, up from 6.2% at first quarter, due primarily to an upward adjustment to investment and farm income.

Destination Alberta

People are moving to Alberta in droves, lured by job prospects and high incomes. Alberta has seen more residents arrive than leave the province for six straight quarters. The last two quarters of data have been especially strong, with net interprovincial migration hitting a six-year high of around 10,000 per quarter (Figure 5). **As a result, Alberta's population is now expected to expand by an impressive 2.5% in 2012**, up from the first quarter forecast of 2.1%.

FIGURE 5. Alberta Net Interprovincial Migration



Source: Statistics Canada

New migrants help fuel housing gains

Soaring net migration and a strong labour market has buoyed the housing market in Alberta. **Housing starts are up 34% through the first 10 months compared with last year.** Starts are now forecast at 31,500, up from the first quarter forecast of 29,500.

On the resale side, new listings have not kept pace with sales this year. This has pushed Alberta into a sellers' market at a time when Canada's overall resale market has slowed.

Risks

As a trade and commodity driven economy, Alberta remains highly exposed to global events. Given the unstable state of the global economy, risks remain more elevated than usual (see pg. 14). The Alberta economy faces the following risks:

- In the absence of a new agreement, the US will face a "fiscal cliff" of automatic spending cuts and tax increases in 2013. This could push the US economy back into recession.
- The Euro zone debt crisis has pushed the region into a recession, and remains far from resolved. An escalation of the crisis is a major downside risk for the global economy.
- A further slowdown of emerging market growth could weigh on commodity prices.
- A lack of pipeline access to alternate markets could further hurt growth prospects for Alberta's oil and gas industry.
- Upside risks to the outlook include significant steps towards a resolution to the Euro zone debt crisis, and an acceleration of emerging market and US economic growth. These developments could lift commodity prices and reduce uncertainty, encouraging greater investment and employment in Alberta.

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2011-12 Actual	2012-13 Fiscal Year Forecast		
		Budget	1st Quarter	2nd Quarter
Prices				
Crude Oil Price				
WTI (US$/bbl)	97.33	99.25	92.75	92.50
Alberta Wellhead (Cdn$/bbl) [a]	88.31	90.18	82.07	78.91
WCS @ Hardisty (Cdn$/bbl)	80.72	83.28	72.11	70.00
Natural Gas Price				
Alberta Reference Price (Cdn$/GJ)	2.98	3.00	2.00	2.07
Production				
Conventional crude oil (000s barrels/day)	504	524	545	546
Raw bitumen (000s barrels/day)	1,785	2,045	1,998	2,005
Natural gas (billions of cubic feet)	4,439	4,085	4,111	4,155
Interest rates				
3-month Canada treasury bills (per cent)	0.89	1.00	1.10	1.00
10-year Canada bonds (per cent)	2.47	2.80	2.30	1.90
Exchange Rate (US¢/Cdn$)	100.7	98.6	98.6	100.5
Calendar Year Assumptions	**2011 Estimates**	**2012 Calendar Year Forecast**		
		Budget	1st Quarter	2nd Quarter
Gross Domestic Product				
Nominal (millions of dollars)	303,494 [b]	306,657	322,487	320,224
per cent change	10.6 [b]	7.0	6.3	5.7
Real (millions of 2002 dollars)	192,801 [b]	196,913	200,173	199,648
per cent change	5.2 [b]	3.8	3.8	3.7
Other Indicators				
Employment (thousands)	2,094	2,151	2,151	2,151
per cent change	3.8	2.7	2.7	2.7
Unemployment rate (per cent)	5.5	4.9	4.9	4.7
Average Weekly Earnings (per cent change)	4.6	4.2	3.5	3.5
Personal Income (per cent change)	6.7 [b]	6.2	6.2	6.7
Corporate Profits (per cent change)	10.1 [b]	11.8	2.6	2.3
Housing starts (number of units)	25,704	28,200	29,500	31,500
Alberta Consumer Price Index (per cent change)	2.4	2.5	1.9	1.5
Population (thousands)	3,779	3,848	3,859	3,874
per cent change	1.6	1.8	2.1	2.5

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.

[b] Alberta Treasury Board and Finance estimate. Does not reflect revisions to the Provincial Economic Accounts, released by Statistics Canada on November 19.

GLOBAL ECONOMY

Uncertainty clouds the global outlook

The global economy remains in a protracted slump. In September, several major central banks announced large asset purchase programs to spur their struggling economies. Nevertheless, the International Monetary Fund has lowered its global economic outlook for the second time this year, with notable declines to Euro zone and emerging market growth (Figure 1).

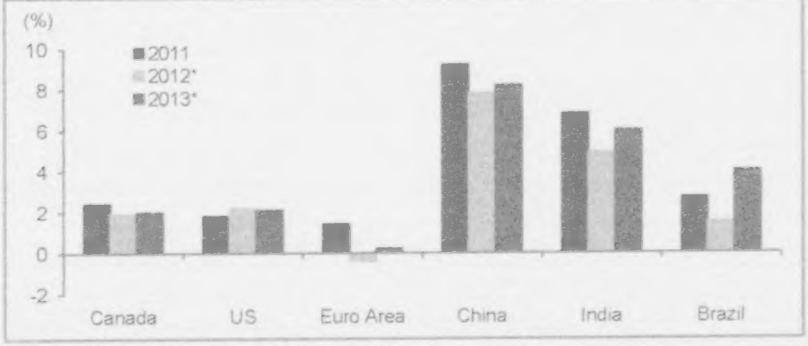
Much of the weakness emanates from Europe, where the debt crisis has spread to Spain and Italy. The European Central Bank's announcement of a bond buying program has helped ease more immediate concerns. However, the region is now in a recession and a resolution to the crisis remains elusive, as evidenced by elevated Spanish and Italian bond yields (Figure 2).

The problems in Europe have rippled through the global economy. In China, economic growth has slowed for eight straight quarters, reflecting headwinds from Europe and slowing growth in domestic demand. Brazil and India have seen even more pronounced declines.

In the US, a major risk is the direction of fiscal policy in the face of record debt levels. A failure to prevent the 'fiscal cliff' of looming spending cuts and tax increases could push the US economy back into recession in 2013 (Figure 3). In Canada, concerns remain over elevated household debt and a possible slowdown in the housing market.

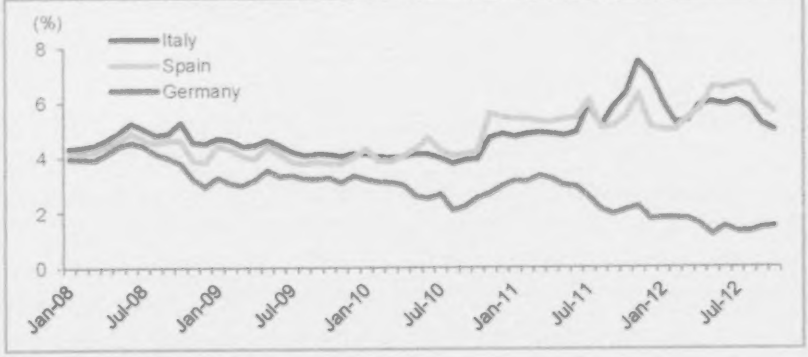
Going forward, Alberta will remain highly exposed to global risks. In particular, a slowdown in global growth would hurt commodity prices, leading to a slower pace of investment and job creation.

FIGURE 1. Real GDP Growth by Country



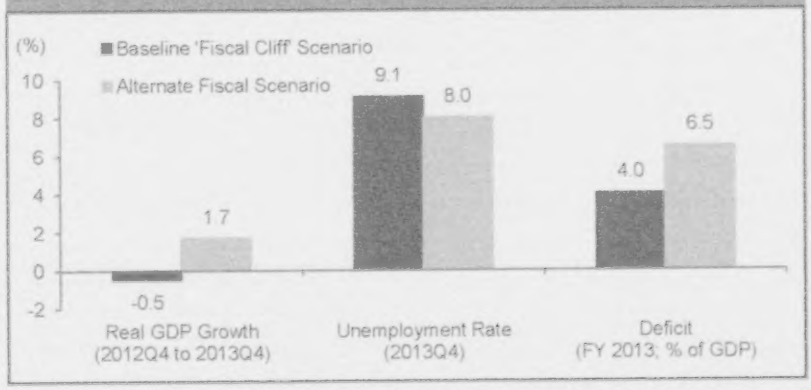
Source: International Monetary Fund *October Forecast.

FIGURE 2. 10-year Government Bond Yields



Source: Haver Analytics

FIGURE 3. Potential Impact of 'Fiscal Cliff' on the US



Source: Congressional Budget Office. The alternative fiscal scenario incorporates a set of policies that would reduce fiscal tightening in 2013 but not eliminate it.

REVENUE IMPACTS

Impact of recent developments on government revenue

Royalty revenue forecast edges lower

The revenue outlook for 2012-13 has been revised slightly lower, reflecting downward adjustments to royalty income.

While Alberta's economy has performed well, overall government revenue has been impacted by a lower energy price forecast since first quarter. Despite ongoing supply concerns in the middle east, oil prices have been negatively affected by the European debt crisis, slow growth in advanced countries, and a deceleration in emerging countries. Reflecting these developments, the forecast for oil prices has been downgraded slightly since first quarter.

After a large downward revision between budget and first quarter, the natural gas price forecast has been adjusted slightly higher (see Figure 1). Growing supplies of US shale gas in the face of tepid economic growth continue to hurt natural gas prices.

The largest revenue adjustment has been to royalties on crude oil and bitumen. Since first quarter, two main factors have lowered the royalty outlook for 2012-13:

- The forecast for crude oil prices in North America (e.g. West Texas Intermediate) has come down slightly due to global economic uncertainty, weak demand and increasing US production. As prices fall, producers are also subject to a lower royalty rate, thereby paying less royalties.
- The differential between WTI and what Alberta oil sands producers receive on bitumen (e.g. Western Canada Select) is now forecast to be wider than expected at first quarter, mainly reflecting pipeline constraints and refinery shutdowns.
- Royalty revenue has been negatively impacted by the recent appreciation of the Canadian dollar. The forecast for the dollar has been revised up to 100.5 US¢/Cdn$ from 98.6 at first quarter due to recent gains. In an uncertain economic climate, Canada has been viewed as a safehaven for international capital. This has contributed to the loonie's recent strength.

Natural gas royalties remain weak due to depressed prices and falling production. The forecast for natural gas royalties is largely unchanged from first quarter.

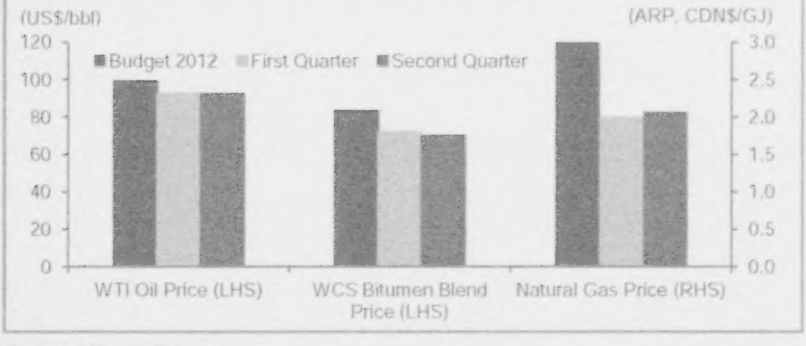
Alberta land sales, which were forecast to decline in first quarter, are now projected to be even lower due to lower price received per acre.

Income tax forecast improves slightly

A strong economy is expected to push corporate profits moderately higher in 2012. The profits forecast has remained largely unchanged since first quarter. However, corporate income tax revenue has been revised marginally higher for 2012-13. This mainly reflects much higher-than-expected tax collections in the first six months of the fiscal year.

Personal income tax revenue is expected to post a solid increase this fiscal year on job and income gains. The forecast for personal income tax revenue has been revised slightly higher from first quarter based on 2011 preliminary tax assessment data and an improvement in the personal income forecast.

FIGURE 1. Key Energy Price Assumptions for 2012-13



Source: Alberta Energy